

What is claimed is:

1 1. A method of hedging investment risk in actively managed  
2 exchange traded funds, comprises:

3 extracting factor information from the portfolio of the  
4 actively managed exchange traded fund;

5 determining factors that affect the value of the  
6 exchange traded fund; and

7 selecting a portfolio of financial instruments with  
8 similar behavior with respect to the determined factors to  
9 produce a hedging portfolio that tracks the price of the exchange  
10 traded fund.

1 2. The method of claim 1 wherein the portfolio tracks the  
2 price of the exchange traded fund.

1 3. The method of claim 1 further comprising:  
2 producing a hedging portfolio from the portfolio of  
3 financial instruments to hedge a position taken in the exchange  
4 traded fund.

1 4. The method of claim 1 wherein determining further  
2 comprises:

3 applying factor analysis to the portfolio of the  
4 exchange traded fund to provide the factors.

1 5. The method of claim 3 wherein applying occurs in a  
- 2 trusted computer system.

1 6. The method of claim 1 wherein the factors that are  
2 examined by factor analysis include economic activity, inflation  
3 rates or other factors that are related to measures of economic  
4 activity.

1 7. The method of claim 1 further comprising:  
2 constructing a factor portfolio based upon weightings  
3 and selections of securities from a given group of securities.

1 8. A computer program product residing on a computer  
2 readable medium for hedging investment risk in actively, managed,  
3 exchange traded funds, comprises instructions for causing a  
4 computer to:

5 extract factor information from a portfolio of the  
6 actively managed exchange traded fund;

7 determine factors that affect the price of the exchange  
8 traded fund; and

9 select a portfolio of financial instruments with  
10 similar behavior with respect to the determined factors to  
11 produce a hedging portfolio that tracks the price of the exchange  
12 traded fund.

1 9. The computer program product of claim 8 wherein the  
2 portfolio tracks the price of the exchange traded fund.

1 10. The computer program product of claim 8 further  
2 comprising instructions to:

3 produce a hedging portfolio from the portfolio of  
4 instruments to hedge a position taken in the exchange traded

5 fund.

1 11. The computer program product of claim 8 wherein  
2 instructions to determine further comprise instructions to:  
3 apply factor analysis to the portfolio of the exchange  
4 traded fund to provide the factors.

1 12. The computer program product of claim 11 wherein  
2 instructions to apply are executed in a trusted computer system.

1 13. The computer program product of claim 8 wherein the  
2 extracted factors that are examined by factor analysis include  
3 economic activity, inflation rates or other factors that are  
4 related to measures of economic activity.

1 14. The computer program product of claim 8 further  
2 comprising instructions to:  
3 construct a factor portfolio based upon weightings of  
4 and selections from a given group of instruments.

1 15. A computer system for determining a basket of  
2 securities for hedging investment risk in actively managed  
3 exchange traded funds, comprises:  
4 a trusted computer system; and  
5 a computer storage medium storing a computer program  
6 product for determining the basket of instruments for hedging  
7 investment risk, comprising instructions for causing the computer  
8 to:

9 extract factor information from a portfolio of an  
10 actively managed exchange traded fund;

11           determine factors that affect the price of the exchange  
12 traded fund; and

13           select a portfolio of financial instruments with  
14 similar behavior with respect to the determined factors to  
15 produce a hedging portfolio that tracks the price of the exchange  
16 traded fund.

1   16.       The system of claim 15 wherein the computer program  
2 further comprises instructions to:

3           produce a hedging portfolio from the portfolio of  
4 stocks to hedge a position taken in the exchange traded fund.

1   17.       The system of claim 15 wherein instructions to  
2 determine further comprises instructions to:

3           apply factor analysis to the portfolio of the exchange  
4 traded fund to provide the factors.

1   18.       The system of claim 15 wherein system examines factors  
2 including economic activity, inflation rates or other factors  
3 that are related to measures of economic activity.

1   19.       The system of claim 15 wherein the computer program  
2 further comprises instructions to:

3           construct a factor portfolio based upon weightings and  
4 selections from a given group of instruments.

1   20.       A method of calculating a Net Asset Valuation proxy  
2 comprises:

3           producing a hedging portfolio to track an actively

4 managed fund by extracting factor information from a portfolio of  
5 the actively managed exchange traded fund and determining factors  
6 that affect the price of the exchange traded fund to select a  
7 portfolio of financial instruments with similar behavior with  
8 respect to the determined factors to produce the hedging  
9 portfolio; and

10 applying current prices to the hedging portfolio to  
11 determine a NAV proxy value for the exchange traded fund.